

NEWTON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Newton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 election)		
Cathi Fouts	President	2008
Don Poynter	Vice President	2008
Greg Davis	Board Member	2007
Jerry Sawin	Board Member	2008
Dennis Combs	Board Member	2006
Fred Chabot	Board Member	2006
Donna Cook	Board Member	2007
Board of Education (After September 2006 election)		
Don Poynter	President	2008
Dennis Combs	Vice President	2009
Greg Davis	Board Member	2007
Jerry Sawin	Board Member	2008
Sheri Benson	Board Member	2009
Donna Cook	Board Member	2007
Cathi Fouts	Board Member	2008
School Officials		
Steve McDermott	Superintendent	2007
Jackie Black	Director of Business Affairs District Secretary/Treasurer	2007
Tim Campbell	Attorney	Indefinite
Terry Rickers	Attorney	Indefinite
Alhers and Cooney P.C.	Attorney	Indefinite

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Newton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newton Community School District, Newton, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Newton Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 2, 2008 on our consideration of Newton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

January 2, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Newton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$24,690,216 in fiscal year 2006 to \$26,064,662 in fiscal year 2007, while General Fund expenditures increased from \$25,220,851 in fiscal 2006 to \$26,227,535 in fiscal 2007.
- The District's General Fund undesignated, unreserved fund balance decreased from \$2,260,011 in fiscal 2006 to \$2,061,859 in fiscal 2007 due to using carryover fund balance to cover expenditures during the year.
- The District tries to maintain a solvency ratio between 5% and 10%. As of the year ended June 30, 2007, the District has a 7.9% solvency ratio.
- Improved interest rates and more available cash over the past year have resulted in an increase of interest earnings in the General Fund alone from \$140,970 in fiscal 2006 to \$168,471 in fiscal 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Newton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Newton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Newton Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Newton Community School District Annual Financial Report

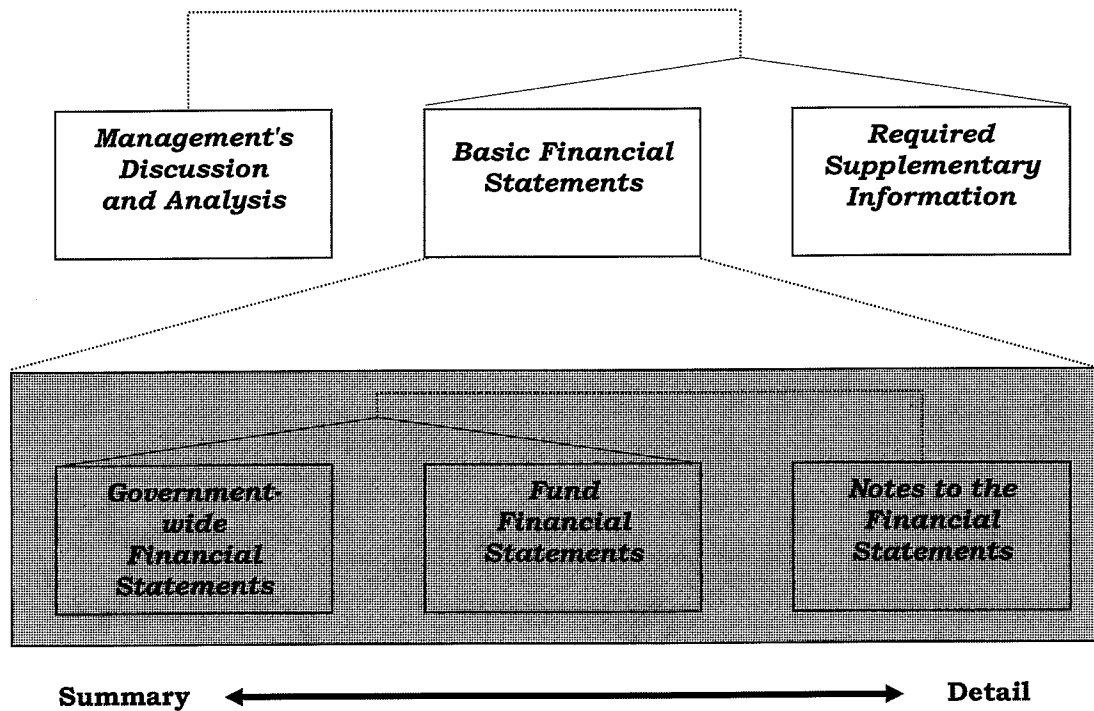


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 19,418,671	19,478,410	58,112	63,963	19,476,783	19,542,373	-0.34%
Capital assets	31,335,399	31,950,260	128,184	72,734	31,463,583	32,022,994	-1.75%
Total assets	50,754,070	51,428,670	186,296	136,697	50,940,366	51,565,367	-1.21%
Long-term obligations	18,764,170	20,460,534	0	0	18,764,170	20,460,534	-8.29%
Other liabilities	9,990,625	10,190,414	0	4,595	9,990,625	10,195,009	-2.00%
Total liabilities	28,754,795	30,650,948	0	4,595	28,754,795	30,655,543	-6.20%
Net assets:							
Invested in capital assets, net of related debt	12,730,399	15,584,700	128,184	72,734	12,858,583	15,657,434	-17.88%
Restricted	6,974,452	2,545,719	0	0	6,974,452	2,545,719	173.97%
Unrestricted	2,294,424	2,647,303	58,112	59,368	2,352,536	2,706,671	-13.08%
Total net assets	\$ 21,999,275	20,777,722	186,296	132,102	22,185,571	20,909,824	6.10%

The District's combined net assets increased by 6.10%, or \$1,275,747 over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$4,428,733, or 173.97% over the prior year. The increase was primarily a result of the District increase in the restricted fund balances.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$354,135 or 13.08%. This decrease in unrestricted net assets was primarily a result of the District General Fund balance declining during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,102,335	1,228,033	763,355	797,202	1,865,690	2,025,235	-7.88%
Operating grants and contributions and restricted interest	2,994,924	2,590,064	554,566	524,169	3,549,490	3,114,233	13.98%
General revenues:							
Property tax	9,787,663	9,778,410	0	0	9,787,663	9,778,410	0.09%
Income surtax	441,249	430,405	0	0	441,249	430,405	2.52%
Local option sales and services tax	2,181,026	1,561,128	0	0	2,181,026	1,561,128	39.71%
Unrestricted state grants	14,183,521	13,456,347	0	0	14,183,521	13,456,347	5.40%
Other	751,734	377,301	714	587	752,448	377,888	99.12%
Total revenues	31,442,452	29,421,688	1,318,635	1,321,958	32,761,087	30,743,646	6.56%
Program expenses:							
Governmental activities:							
Instructional	18,395,661	17,609,347	0	0	18,395,661	17,609,347	4.47%
Support services	8,265,894	8,916,497	2,875	0	8,268,769	8,916,497	-7.26%
Non-instructional programs	8,912	7,357	1,315,264	1,305,411	1,324,176	1,312,768	0.87%
Other expenses	3,550,432	2,149,967	0	0	3,550,432	2,149,967	65.14%
Total expenses	30,220,899	28,683,168	1,318,139	1,305,411	31,539,038	29,988,579	5.17%
Changes in net assets before other financing sources(uses)	1,221,553	738,520	496	16,547	1,222,049	755,067	61.85%
Other financing sources(uses), net	0	3,726	53,698	938	53,698	4,664	1051.33%
Changes in net assets	1,221,553	742,246	54,194	17,485	1,275,747	759,731	67.92%
Beginning Net Assets	20,777,722	20,035,476	132,102	114,617	20,909,824	20,150,093	3.77%
Ending Net Assets	\$ 21,999,275	20,777,722	186,296	132,102	22,185,571	20,909,824	6.10%

In fiscal 2007, property tax and unrestricted state grants account for 76.24% of the revenue from governmental activities while charges for service and operating grants and contributions account for 99.95% of the revenue from business type activities.

The District's total revenues were approximately \$32.76 million of which approximately \$31.44 million was for governmental activities and while approximately \$1.32 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.56% increase in revenues and a 5.17% increase in expenses. Unrestricted state grants increased \$727,174 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$31,442,452 and expenses were \$30,220,899. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 18,395,661	17,609,347	4.47%	15,395,860	14,809,346	3.96%
Support services	8,265,894	8,916,497	-7.30%	8,212,641	8,872,136	-7.43%
Non-instructional	8,912	7,357	21.14%	8,912	7,357	21.14%
Other expenses	3,550,432	2,149,967	65.14%	2,506,227	1,176,232	113.07%
Totals	\$ 30,220,899	28,683,168	5.36%	26,123,640	24,865,071	5.06%

- The cost financed by users of the District's programs was \$1,102,335.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,994,924.
- The net cost of governmental activities was financed with \$9,787,663 in local property tax, \$441,249 in income surtax, \$2,181,026 in local option sales and services tax, \$14,183,521 in unrestricted state grants and \$531,246 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$1,318,635 and expenses were \$1,318,139. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Newton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$9,117,103, slightly above last year's ending fund balances of \$9,011,776.

Governmental Fund Highlights

- The District's decline in its General Fund financial position from \$2,303,223 in fiscal 2006 to \$2,141,566 in fiscal 2007 is the product of many factors. Revenues increased due to increased state funding, both state aid and teacher quality funding. The General Fund increased expenditures resulted from salary settlement increases and normal operating expenses.

- The Physical Plant and Equipment Levy Fund balance increased from \$2,082,290 in fiscal 2006 to \$2,132,165 in fiscal 2007 due to revenues collected during the year surpassing expenditures. The District follows a five-year capital improvement plan that is reviewed annually.
- The Capital Projects Fund balance increased from \$2,507,117 to \$2,545,143 due to reduced expenditures because of construction projects being primarily completed in the previous year.
- The Debt Service Fund balance increased from \$1,495,536 to \$1,651,403. Included in the fund balance at year end is a required reserve of \$875,000 as part of the issuance of the sales tax revenue bonds.
- The Management Fund balance decreased from \$408,937 to \$406,882. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits.
- The Student Activity Fund balance increased from \$214,673 to \$239,944 due to the variance of student activities from year to year.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$132,102 at June 30, 2006 to \$186,296 at June 30, 2007, representing an increase of 41.02%. The increase in fund net assets is due primarily to contributed capital from the Capital Projects Fund for new equipment purchases.

BUDGETARY HIGHLIGHTS

Over the course of the year, Newton Community School District amended its annual budget one time to reflect additional expenditures from the District's refunding of its 1998 General Obligation bond issue.

The District's revenues were \$1,039,398 more than budgeted revenues, a variance of 3.28%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$31.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.75% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,247,716.

The original cost of the District's capital assets was \$57.22 million. Governmental funds account for \$56.66 million with the remainder of \$0.56 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$3,354,511 at June 30, 2006, compared to \$80,399 reported at June 30, 2007. This significant decrease resulted from the completion of capital improvements at Aurora Heights Elementary.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 1,161,495	1,124,348	0	0	1,161,495	1,124,348	3.30%
Construction in progress	80,399	3,354,511	0	0	80,399	3,354,511	-97.60%
Buildings	28,161,789	25,551,357	0	0	28,161,789	25,551,357	10.22%
Land improvements	861,424	933,363	0	0	861,424	933,363	-7.71%
Machinery and equipment	1,070,292	986,681	128,184	72,734	1,198,476	1,059,415	13.13%
Total	\$ 31,335,399	31,950,260	128,184	72,734	31,463,583	32,022,994	-1.75%

Long-Term Debt

At June 30, 2007, the District had \$18,764,170 in general obligation and other long-term debt outstanding. This represents a decrease of 8.29% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$12,265,000 at June 30, 2007.

The District also had outstanding revenue bonds of \$6,340,000 at June 30, 2007.

The District had outstanding early retirement of \$80,792 at June 30, 2007.

The District had outstanding compensated absences of \$78,378 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 12,265,000	13,095,000	-6.34%
Revenue bonds	6,340,000	7,120,000	-10.96%
Early retirement	80,792	163,655	-50.63%
Compensated absences	78,378	81,879	-4.28%
Totals	\$ 18,764,170	20,460,534	-8.29%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- The District's certified enrollment decreased significantly (68 students) in the fall of 2006 impacting the fiscal 2008 budget. Under Iowa's school funding formula, the district's funding is highly dependent upon the student enrollment. Future enrollment stability is critical and was experienced by the fall of 2007. The District's certified enrollment decreased by only 2.1 students from 3328.6 to 3326.5.
- The 2006-2007 regular program district cost (RPDC) per pupil was \$5,128, a 4% allowable growth increase of \$197 from fiscal year 2006. The 2007-08 RPDC is \$5,333, also a 4% increase from the previous year.
- The District has implemented a budget realignment which will decrease expenditures by \$650,000 for fiscal 2008.
- The Newton Community is experiencing an economic transition with the closing of Maytag/Whirlpool Company. Specific concerns of loss of student enrollment, employment and property tax valuation are areas deserving close monitoring.
- The \$70 million Iowa Speedway project was completed and operational for the 2007 season. Projections of increased School Infrastructure Local Option Sales and Services (SILO) tax revenues were realized. From the period of February 2004 through June 2007, the District has received \$5,752,825 in SILO revenue.
- There have been public announcements of new employment opportunities in Newton. The TPI company, a wind turbine equipment manufacturing firm, has a planned opening in the fall of 2008. If companies related to TPI decide to locate to Newton, this would further increase the possible job opportunities for Newton.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jackie Black, Director of Business Affairs, Newton Community School District, 807 S 6th Ave W, Newton, Iowa, 50208.

BASIC FINANCIAL STATEMENTS

NEWTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:	\$ 7,996,713	23,610	8,020,323
Receivables:			
Property tax:			
Delinquent	140,790	0	140,790
Succeeding year	9,603,565	0	9,603,565
Income surtax	429,299	0	429,299
Accounts	0	5,363	5,363
Due from other governments	1,211,233	0	1,211,233
Inventories	37,071	29,139	66,210
Capital assets, net of accumulated depreciation (Note 4)	31,335,399	128,184	31,463,583
TOTAL ASSETS	50,754,070	186,296	50,940,366
LIABILITIES			
Accounts payable	48,355	0	48,355
Salaries and benefits payable	220,349	0	220,349
Accrued interest payable	118,356	0	118,356
Deferred revenue:			
Succeeding year property tax	9,603,565	0	9,603,565
Long-term liabilities (Note 5):			
Portion due within one year:			
Bonds payable	850,000	0	850,000
Revenue bonds payable	805,000	0	805,000
Early retirement payable	70,614	0	70,614
Compensated absences payable	78,378	0	78,378
Portion due after one year:			
Bonds payable	11,415,000	0	11,415,000
Revenue bonds payable	5,535,000	0	5,535,000
Early retirement payable	10,178	0	10,178
TOTAL LIABILITIES	28,754,795	0	28,754,795
NET ASSETS			
Invested in capital assets, net of related debt	12,730,399	128,184	12,858,583
Restricted for:			
Talented and gifted	19,208	0	19,208
Market factor	23,428	0	23,428
Inventories	37,071	0	37,071
Management levy	326,090	0	326,090
Capital projects	2,545,143	0	2,545,143
Debt service	1,651,403	0	1,651,403
Physical plant and equipment levy	2,132,165	0	2,132,165
Other special revenue purposes	239,944	0	239,944
Unrestricted	2,294,424	58,112	2,352,536
TOTAL NET ASSETS	\$ 21,999,275	186,296	22,185,571

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern-mental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 11,814,179	363,775	1,758,314	(9,692,090)	0	(9,692,090)
Special instruction	4,144,097	176,405	176,039	(3,791,653)	0	(3,791,653)
Other instruction	2,437,385	525,268	0	(1,912,117)	0	(1,912,117)
	18,395,661	1,065,448	1,934,353	(15,395,860)	0	(15,395,860)
Support services:						
Student services	1,054,028	0	0	(1,054,028)	0	(1,054,028)
Instructional staff services	1,011,642	0	0	(1,011,642)	0	(1,011,642)
Administration services	2,799,156	0	0	(2,799,156)	0	(2,799,156)
Operation and maintenance of plant services	2,409,409	0	0	(2,409,409)	0	(2,409,409)
Transportation services	991,659	36,887	16,366	(938,406)	0	(938,406)
	8,265,894	36,887	16,366	(8,212,641)	0	(8,212,641)
Non-instructional programs:						
Food service operations	5,293	0	0	(5,293)	0	(5,293)
Community service and education operations	3,619	0	0	(3,619)	0	(3,619)
	8,912	0	0	(8,912)	0	(8,912)
Other expenditures:						
Facilities acquisitions	930,949	0	0	(930,949)	0	(930,949)
Long-term debt interest	755,298	0	0	(755,298)	0	(755,298)
AEA flowthrough	1,044,205	0	1,044,205	0	0	0
Depreciation(unallocated)*	819,980	0	0	(819,980)	0	(819,980)
	3,550,432	0	1,044,205	(2,506,227)	0	(2,506,227)
Total governmental activities	30,220,899	1,102,335	2,994,924	(26,123,640)	0	(26,123,640)
Business-Type activities:						
Support services:						
Instructional staff services	1,220	0	0	0	(1,220)	(1,220)
Administration services	1,655	0	0	0	(1,655)	(1,655)
Non-instructional programs:						
Nutrition services	1,315,264	763,355	554,566	0	2,657	2,657
Total business-type activities	1,318,139	763,355	554,566	0	(218)	(218)
Total	\$ 31,539,038	1,865,690	3,549,490	(26,123,640)	(218)	(26,123,858)
General Revenues:						
Property tax levied for:						
General purposes				\$ 8,232,140	0	8,232,140
Capital outlay				628,919	0	628,919
Debt service				926,604	0	926,604
Income surtax				441,249	0	441,249
Local option sales and services tax				2,181,026	0	2,181,026
Unrestricted state grants				14,183,521	0	14,183,521
Unrestricted investment earnings				531,246	714	531,960
Other				220,488	0	220,488
Total general revenues				27,345,193	714	27,345,907
Changes in net assets before other financing sources(uses)				1,221,553	496	1,222,049
Other Financing Sources(Uses):						
Loss on disposal of capital assets				0	(400)	(400)
Contributed capital				0	54,098	54,098
Total Other Financing Sources(Uses)				0	53,698	53,698
Changes in net assets				1,221,553	54,194	1,275,747
Net assets beginning of year				20,777,722	132,102	20,909,824
Net assets end of year				\$ 21,999,275	186,296	22,185,571

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Manage- ment Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Student Activity Fund	Total
ASSETS							
Cash and cash equivalents	\$ 1,643,301	617,782	2,123,553	1,733,415	1,638,718	239,944	7,996,713
Receivables:							
Property tax							
Delinquent	110,044	9,449	8,612	0	12,685	0	140,790
Succeeding year	7,778,415	700,000	639,987	0	485,163	0	9,603,565
Income surtax	429,299	0	0	0	0	0	429,299
Due from other governments	399,505	0	0	811,728	0	0	1,211,233
Inventories	37,071	0	0	0	0	0	37,071
TOTAL ASSETS	\$ 10,397,635	1,327,231	2,772,152	2,545,143	2,136,566	239,944	19,418,671
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 48,355	0	0	0	0	0	48,355
Salaries and benefits payable	0	220,349	0	0	0	0	220,349
Deferred revenue:							
Succeeding year property tax	7,778,415	700,000	639,987	0	485,163	0	9,603,565
Income surtax	429,299	0	0	0	0	0	429,299
Total liabilities	8,256,069	920,349	639,987	0	485,163	0	10,301,568
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	1,651,403	0	1,651,403
Talented and gifted	19,208	0	0	0	0	0	19,208
Market factor	23,428	0	0	0	0	0	23,428
Inventories	37,071	0	0	0	0	0	37,071
Unreserved:							
Undesignated:							
General	2,061,859	0	0	0	0	0	2,061,859
Management levy	0	406,882	0	0	0	0	406,882
Physical plant and equipment levy	0	0	2,132,165	0	0	0	2,132,165
Capital projects	0	0	0	2,545,143	0	0	2,545,143
Other special revenue purposes	0	0	0	0	0	239,944	239,944
Total fund balances	2,141,566	406,882	2,132,165	2,545,143	1,651,403	239,944	9,117,103
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,397,635	1,327,231	2,772,152	2,545,143	2,136,566	239,944	19,418,671

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 YEAR ENDED JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 9,117,103
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	31,335,399
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	429,299
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(118,356)
Long-term liabilities, including general obligation bonds payable, revenuebonds payable, early retirement payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(18,764,170)
Net assets of governmental activites (page 14)	<u><u>\$ 21,999,275</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	General	Manage- ment Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Student Activity Fund	Total
REVENUES:							
Local sources:							
Local tax	\$ 8,022,533	650,990	628,919	2,181,026	926,604	0	12,410,072
Tuition	407,365	0	0	0	0	0	407,365
Other	457,643	125,436	51,487	86,552	195,098	530,488	1,446,704
Intermediate sources	37,042	0	0	0	0	0	37,042
State sources	16,452,368	490	446	0	388	0	16,453,692
Federal sources	687,711	0	0	0	0	0	687,711
Total revenues	26,064,662	776,916	680,852	2,267,578	1,122,090	530,488	31,442,586
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	11,438,352	462,243	0	0	0	0	11,900,595
Special instruction	4,158,955	21,198	0	0	0	0	4,180,153
Other instruction	1,909,847	10,364	0	0	0	503,372	2,423,583
	17,507,154	493,805	0	0	0	503,372	18,504,331
Support services:							
Student services	996,872	57,156	0	0	0	0	1,054,028
Instructional staff services	912,805	4,566	103,725	0	0	0	1,021,096
Administration services	2,653,901	18,146	71,720	278	57,125	1,845	2,803,015
Operation and maintenance of plant services	2,263,586	159,779	18,472	0	0	0	2,441,837
Transportation services	845,393	40,226	122,926	0	0	0	1,008,545
	7,672,557	279,873	316,843	278	57,125	1,845	8,328,521
Non-instructional programs:							
Food service operations	0	5,293	0	0	0	0	5,293
Community service and education operations	3,619	0	0	0	0	0	3,619
	3,619	5,293	0	0	0	0	8,912
Other expenditures:							
Facilities acquisitions	0	0	314,240	738,217	0	0	1,052,457
Long-term debt:							
Principal	0	0	0	0	1,620,000	0	1,620,000
Interest and fiscal charges	0	0	0	0	790,155	0	790,155
AEA flowthrough	1,044,205	0	0	0	0	0	1,044,205
	1,044,205	0	314,240	738,217	2,410,155	0	4,506,817
Total expenditures	26,227,535	778,971	631,083	738,495	2,467,280	505,217	31,348,581
Excess(deficiency) of revenues over(under) expenditures	(162,873)	(2,055)	49,769	1,529,083	(1,345,190)	25,271	94,005
Other financing sources(uses):							
Refunding debt issued	0	0	0	0	5,420,000	0	5,420,000
Payment to escrow agent	0	0	0	0	(5,410,000)	0	(5,410,000)
Transfer in	0	0	0	0	1,491,057	0	1,491,057
Transfer out	0	0	0	(1,491,057)	0	0	(1,491,057)
Sale of equipment	1,216	0	106	0	0	0	1,322
Total other financing sources(uses)	1,216	0	106	(1,491,057)	1,501,057	0	11,322
Net change in fund balances	(161,657)	(2,055)	49,875	38,026	155,867	25,271	105,327
Fund balance beginning of year	2,303,223	408,937	2,082,290	2,507,117	1,495,536	214,673	9,011,776
Fund balance end of year	\$ 2,141,566	406,882	2,132,165	2,545,143	1,651,403	239,944	9,117,103

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ 105,327

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	\$ 620,568	
Depreciation expense	(1,232,001)	(614,861)
Loss on disposal of capital assets	(3,428)	

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (134)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues as follows:

Issued	\$ (5,420,000)	
Repaid	7,030,000	1,610,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 34,857

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 82,863	
Compensated Absences	3,501	86,364

Changes in net assets of governmental activities (page 15) \$ 1,221,553

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 23,610
Receivables:	
Accounts	5,363
Inventories	29,139
Capital assets, net of accumulated depreciation(Note 4)	128,184
TOTAL ASSETS	<u>186,296</u>
 TOTAL LIABILITIES	 <u>0</u>
 NET ASSETS	
Invested in capital assets	128,184
Unrestricted	58,112
TOTAL NET ASSETS	<u>\$ 186,296</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 763,355</u>
OPERATING EXPENSES:	
Support services:	
Instructional staff services	1,220
Administration services	1,655
Non-instructional programs:	
Food service operations:	
Salaries	490,156
Benefits	108,966
Services	2,203
Supplies	698,224
Depreciation	15,715
TOTAL OPERATING EXPENSES	<u>1,318,139</u>
OPERATING LOSS	<u>(554,784)</u>
NON-OPERATING REVENUES:	
State sources	13,935
Federal sources	540,631
Interest income	714
TOTAL NON-OPERATING REVENUES	<u>555,280</u>
Change in net assets before other financing sources(uses)	496
OTHER FINANCING SOURCES(USES):	
Loss on asset disposal	(400)
Capital contribution	54,098
TOTAL OTHER FINANCING SOURCES(USES)	<u>53,698</u>
Change in net assets	54,194
Net assets beginning of year	<u>132,102</u>
Net assets end of year	<u><u>\$ 186,296</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 740,756
Cash received from miscellaneous operating activities	13,394
Cash payments to employees for services	(599,122)
Cash payments to suppliers for goods or services	(629,831)
Net cash used in operating activities	<u>(474,803)</u>
Cash flows from non-capital financing activities:	
State grants received	13,935
Federal grants received	479,575
Net cash provided by non-capital financing activities	<u>493,510</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	<u>(17,467)</u>
Cash flows from investing activities:	
Interest on investments	<u>714</u>
Net increase in cash and cash equivalents	1,954
Cash and cash equivalents at beginning of year	<u>21,656</u>
Cash and cash equivalents at end of year	<u>\$ 23,610</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (554,784)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	61,056
Depreciation	15,715
Decrease in inventories	12,415
Increase in accounts receivable	(4,610)
Decrease in deferred revenue	(4,595)
Net cash used in operating activities	<u>\$ (474,803)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 23,610</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$61,056.

During the year ended June 30, 2007, the Nutrition Fund received \$54,098 in contributed capital from Capital Projects.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Newton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Newton and Kellogg, Iowa, and the predominate agricultural territory in Jasper County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Newton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Newton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Statement of Net Assets presents the District's

nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is utilized to account for the District's early retirement benefits, workmen's comprehensive claims, and payments for the District's property insurance.

The Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment:	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial

statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust and certificates of deposit as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 6,972,226</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Certificates are stated at fair value.

At June 30, 2007, the District had investments in Certificates of Deposit maturing over one year as follows:

	<u>Fair Value</u>
Certificates of Deposit	<u>\$ 882,931</u>

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 1,491,057</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Machinery and equipment	\$ 522,247	71,565	29,489	564,323
Less accumulated depreciation	449,513	15,715	29,089	436,139
Business-type activities capital assets, net	<u>\$ 72,734</u>	<u>55,850</u>	<u>400</u>	<u>128,184</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,124,348	37,147	0	1,161,495
Construction in progress	3,354,511	80,399	3,354,511	80,399
Total capital assets not being depreciated	4,478,859	117,546	3,354,511	1,241,894
Capital assets being depreciated:				
Buildings	36,212,481	3,354,511	0	39,566,992
Land improvements	2,736,714	3,962	0	2,740,676
Machinery and equipment	13,156,998	499,060	548,296	13,107,762
Total capital assets being depreciated	52,106,193	3,857,533	548,296	55,415,430
Less accumulated depreciation for:				
Buildings	10,661,124	744,079	0	11,405,203
Land improvements	1,803,351	75,901	0	1,879,252
Machinery and equipment	12,170,317	412,021	544,868	12,037,470
Total accumulated depreciation	24,634,792	1,232,001	544,868	25,321,925
Total capital assets being depreciated, net	27,471,401	2,625,532	3,428	30,093,505
Governmental activities capital assets, net	\$ 31,950,260	2,743,078	3,357,939	31,335,399

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 213,894
Special	15,264
Other	32,541
Support services:	
Instructional staff	2,232
Administration	9,442
Operation and maintenance of plant	12,424
Transportation	126,224
	412,021
Unallocated depreciation	819,980
Total governmental activities depreciation expense	\$ 1,232,001
Business-type activities:	
Food services	\$ 15,715

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 13,095,000	5,420,000	6,250,000	12,265,000	850,000
Revenue bonds	7,120,000	0	780,000	6,340,000	805,000
Early retirement	163,655	328,160	411,023	80,792	70,614
Compensated absences	81,879	78,378	81,879	78,378	78,378
Total	\$ 20,460,534	5,826,538	7,522,902	18,764,170	1,803,992

Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of March 5, 2007			Bond Issue of January 1, 1999			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2008	3.80	% \$ 360,000	256,627	4.15	% \$ 490,000	298,095	\$ 850,000	554,722
2009	3.80	420,000	193,173	4.15	515,000	277,760	935,000	470,933
2010	3.80	440,000	177,213	4.15	540,000	256,387	980,000	433,600
2011	3.80	455,000	160,493	4.20	565,000	233,978	1,020,000	394,471
2012	3.80	475,000	143,203	4.25	590,000	210,247	1,065,000	353,450
2013	3.80	495,000	125,153	4.25	615,000	185,173	1,110,000	310,326
2014	3.80	515,000	106,343	4.40	645,000	159,035	1,160,000	265,378
2015	3.80	530,000	86,773	4.40	675,000	130,655	1,205,000	217,428
2016	3.80	550,000	66,633	4.50	705,000	100,955	1,255,000	167,588
2017	3.85	575,000	45,733	4.60	735,000	69,230	1,310,000	114,963
2018	3.90	605,000	23,595	4.60	770,000	35,420	1,375,000	59,015
Total		\$ 5,420,000	1,384,939		\$ 6,845,000	1,956,935	\$ 12,265,000	3,341,874

Revenue Bonds Payable

Details of the District's June 30, 2007 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of February 1, 2004			
	Interest Rates	Principal	Interest	Total
2008	2.95	% \$ 805,000	187,030	992,030
2009	2.95	835,000	163,282	998,282
2010	2.95	865,000	138,650	1,003,650
2011	2.95	900,000	113,133	1,013,133
2012	2.95	935,000	86,583	1,021,583
2013	2.95	980,000	59,000	1,039,000
2014	2.95	1,020,000	30,090	1,050,090
Total		\$ 6,340,000	777,768	7,117,768

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$865,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.

- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees and administration. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each employee's base salary, depending on the individual's classification, calculated by using the current year salary schedule, less any other additional pay. In addition, a portion of unused sick leave is included in the early retirement stipend. Early retirement benefits expensed during the year ended June 30, 2007 totaled \$411,023. The cost of early retirement payments expected to liquidated currently are recorded as a liability of the government-wide financial statements representing the District's commitment to fund non-current early retirement of \$80,792.

(6) Bond Defeasement

On March 5, 2007, the District issued \$5,420,000 in general obligation bonds to advance refund \$5,410,000 to call the outstanding general obligation bonds dated August 1, 1998. The new advance refunding bonds have been added to the appropriate financial statement and schedules. The defeasement of principal and interest for the year was \$5,410,000 and \$0. The present value savings of this bond refunding is \$148,634.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$1,001,970, \$965,158 and \$910,602 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, disability and life insurance. District contributions to ISEBA for the year ended June 30, 2006 were \$2,189,405.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,044,205 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

The District has entered into a general contract for window replacement projects at Woodrow Wilson Elementary and Berg Elementary. As of June 30, 2007, costs of \$80,399 had been incurred against the contract. The total cost of the window replacement project will be added to the District's fixed asset listing upon completion.

REQUIRED SUPPLEMENTARY INFORMATION

NEWTON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 14,264,141	764,069	15,028,210	14,212,235	14,212,235	815,975
Intermediate sources	37,042	0	37,042	0	0	37,042
State sources	16,453,692	13,935	16,467,627	16,339,588	16,339,588	128,039
Federal sources	687,711	540,631	1,228,342	1,170,000	1,170,000	58,342
Total revenues	31,442,586	1,318,635	32,761,221	31,721,823	31,721,823	1,039,398
Expenditures:						
Instruction	18,504,331	0	18,504,331	18,595,000	18,595,000	90,669
Support services	8,328,521	2,875	8,331,396	8,568,900	8,568,900	237,504
Non-instructional programs	8,912	1,315,264	1,324,176	1,414,500	1,414,500	90,324
Other expenditures	4,506,817	0	4,506,817	6,408,734	10,000,000	5,493,183
Total expenditures	31,348,581	1,318,139	32,666,720	34,987,134	38,578,400	5,911,680
Excess(deficiency) of revenues over(under) expenditures	94,005	496	94,501	(3,265,311)	(6,856,577)	6,951,078
Other financing sources, net	11,322	53,698	65,020	6,000	6,000	59,020
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing sources	105,327	54,194	159,521	(3,259,311)	(6,850,577)	7,010,098
Balance beginning of year	9,011,776	132,102	9,143,878	6,680,500	6,680,500	2,463,378
Balance end of year	\$ 9,117,103	186,296	9,303,399	3,421,189	(170,077)	9,473,476

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2007, the District adopted one budget amendment increasing total expenditures by \$3,591,266 due to the general obligation bond refunding.

OTHER SUPPLEMENTARY INFORMATION

NEWTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Aurora Hieghts Elementary \$	5,952	14,852	6,121	14,683
Berg Elementary	6,175	1,604	4,719	3,060
Emerson Hough Elementary	955	3,262	1,833	2,384
Woodrow Wilson Elementary	3,341	635	1,478	2,498
Thomas Jefferson Elementary	0	15	0	15
Berg Middle School:				
Band	645	502	663	484
Orchestra	228	251	95	384
Athletics	4,220	174	60	4,334
Yearbook	652	5,739	5,669	722
Other Clubs	41,887	6,772	8,778	39,881
Basic and Beyond	311	5	0	316
Newton High School:				
Band	40	38,205	25,545	12,700
Orchestra	3,814	2,589	4,752	1,651
Athletics	50,898	311,896	288,545	74,249
FFA	38,955	15,976	13,738	41,193
Newtonia Yearbook	14,149	37,001	48,502	2,648
Other Clubs	42,451	91,010	94,719	38,742
Total	\$ 214,673	530,488	505,217	239,944

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 12,410,072	11,752,090	11,721,050	11,362,868
Tuition	407,365	389,737	453,358	412,233
Other	1,446,704	1,215,597	1,083,872	1,117,614
Intermediate sources	37,042	0	0	0
State sources	16,453,692	15,439,232	14,795,545	14,091,309
Federal sources	687,711	607,179	640,338	638,873
Total	<u>\$ 31,442,586</u>	<u>29,403,835</u>	<u>28,694,163</u>	<u>27,622,897</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 11,900,595	11,302,885	11,020,249	10,613,601
Special instruction	4,180,153	4,018,027	3,758,206	3,992,418
Other instruction	2,423,583	2,301,863	2,279,455	1,957,337
Support services:				
Student services	1,054,028	1,158,342	1,324,277	1,539,283
Instructional staff services	1,021,096	824,532	537,635	397,022
Administration services	2,803,015	2,492,461	2,094,346	2,217,113
Operation and maintenance of plant services	2,441,837	2,660,013	2,311,969	2,228,373
Transportation services	1,008,545	1,027,112	955,630	903,706
Non-instructional programs	8,912	7,357	18,262	19,239
Other expenditures:				
Facilities acquisitions	1,052,457	2,535,681	3,777,744	967,623
Long-term debt:				
Principal	1,620,000	1,565,000	1,540,000	740,150
Interest and other charges	790,155	847,201	881,928	679,812
AEA flow-through	1,044,205	973,735	938,061	946,198
Total	<u>\$ 31,348,581</u>	<u>31,714,209</u>	<u>31,437,762</u>	<u>27,201,875</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS(NON-CASH)	10.550	FY 07	\$ 61,056
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	79,940
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	399,635
			<u>479,575</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4725-G	264,245
TITLE I SCHOOL IMPROVEMENT FOLLOW-UP BUDGET	84.010A	FY 07	12,817
			<u>277,062</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	84.186	FY 07	10,449
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	3,946
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	99,230
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 07	23,072
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	27,665
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 07	176,039
TOTAL			<u>\$ 1,158,094</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newton Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Newton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Newton Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 2, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Newton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Newton Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Newton Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Newton Community School District's financial statements that is more than inconsequential will not be prevented or detected by Newton Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Newton Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Newton Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Newton Community School District and other parties to whom Newton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Newton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 2, 2008

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Newton Community School District

Compliance

We have audited the compliance of Newton Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Newton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Newton Community School District's management. Our responsibility is to express an opinion on Newton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Newton Community School District's compliance with those requirements.

In our opinion, Newton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Newton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Newton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newton Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Newton Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Newton Community School District's responses and, accordingly, we express no opinion on them.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Newton Community School District and other parties to whom Newton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

January 2, 2008

NEWTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Programs
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Newton Community School District qualified as a low-risk auditee.

NEWTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

The Student Activity Fund included accounts titled Student Activity Fund Balance for the high school, middle school, and the elementaries. There were expenditures from these accounts for teacher workroom furniture and instructional supplies for the teachers' classrooms. Expenditures for these purposes should be made from the General Fund.

Donations from Lowes were recorded in the Student Activity Fund. These donations were specified for purchasing or maintaining playground equipment; therefore, they should be receipted into the General Fund or the PPEL Fund for this purpose.

Response - The accounts titled Student Activity Fund Balance will be monitored more closely in the future to avoid inappropriate expenditures.

The District transferred the revenue of \$5,000 for the Lowe's grant to the PPEL Fund and subsequently expended the entire amount for new playground equipment at Aurora Heights Elementary.

Conclusion - Response accepted.

II-B-07 Activity Fund Deposits - We noted during our audit that deposits for the Activity Fund were prepared but deposits were not being made until a week, or in some cases, a month later.

Recommendation - All receipts should be deposited when received. The District should review procedures to ensure that the deposits are made timely.

Response - The District's procedures ensure deposits are to be made timely. Further review and assurances will be implemented for compliance in the future.

Conclusion - Response accepted.

NEWTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

NEWTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-07 Business Transactions - No business transactions between the District and District officials were noted.
- | Name, Title and
Business Connection | Transaction
Description | Amount |
|--|----------------------------|---------|
| Gary Johnson
Spouse is a teacher | Purchased Services | \$503 |
| Patrick Edwards,
Spouse is a board member | Purchased Services | \$2,099 |
- In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the Board Member's spouse and the teacher's spouse do not appear to represent a conflict of interest.
- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.